

The Uninsured, Working Families, and Small Businesses

Implementation of Senate Bill 6

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*Health Insurance
Coverage in Maryland
Through 2005*

A REPORT ON THE PATTERNS
OF INSURANCE COVERAGE
IN MARYLAND



JANUARY 2007

ACCESS and
COVERAGE

Who are the uninsured in Maryland?

- “The uninsured” is not a single group but rather many different groups without insurance for widely varying reasons and for varying lengths of time

~~1,100,000~~

~~575,000~~

- ~~780,000~~ individuals, including 140,000 children
 - 14.2 % of the total population – 15.8% of the under-65 population

Data based on 2004-2005 original report.

The Uninsured

■ Key facts

- The majority are young and healthy
- Small businesses have a disproportionate share of uninsured workers
- 83% live in families with at least one adult worker
- 44% are single adults with no children
- 47% have family incomes below 200% FPL (approx. \$40,000 for a family of 4)
 - 35% have family incomes above 300% FPL (approx. \$60,000 for a family of 4)
- 27% are not US citizens
- 39% of Maryland's Hispanic population and 19% of its African-American population are uninsured

- Being uninsured reduces access to health care and contributes to poor health
- Care is often provided in the most expensive setting with the least continuity of care – the Emergency Department
- We all pay the cost of caring for Marylanders who either cannot afford or choose not to get health insurance

■ The Costs of the Uninsured in Maryland *

– Direct costs – estimated at \$1.8 billion

■ Maryland State government

- increased hospital rates \$ 34 million
- state public and mental health programs \$439 million

■ Federal government

- increased hospital rates \$239 million
- share of public/mental health programs and FQHCs \$195 million

■ Local governments \$ 14 million

■ Health plans – increased hospital rates \$165 million

■ Private physicians – uncompensated care [estimates vary widely]

■ Out of pocket payments by the uninsured \$445 million

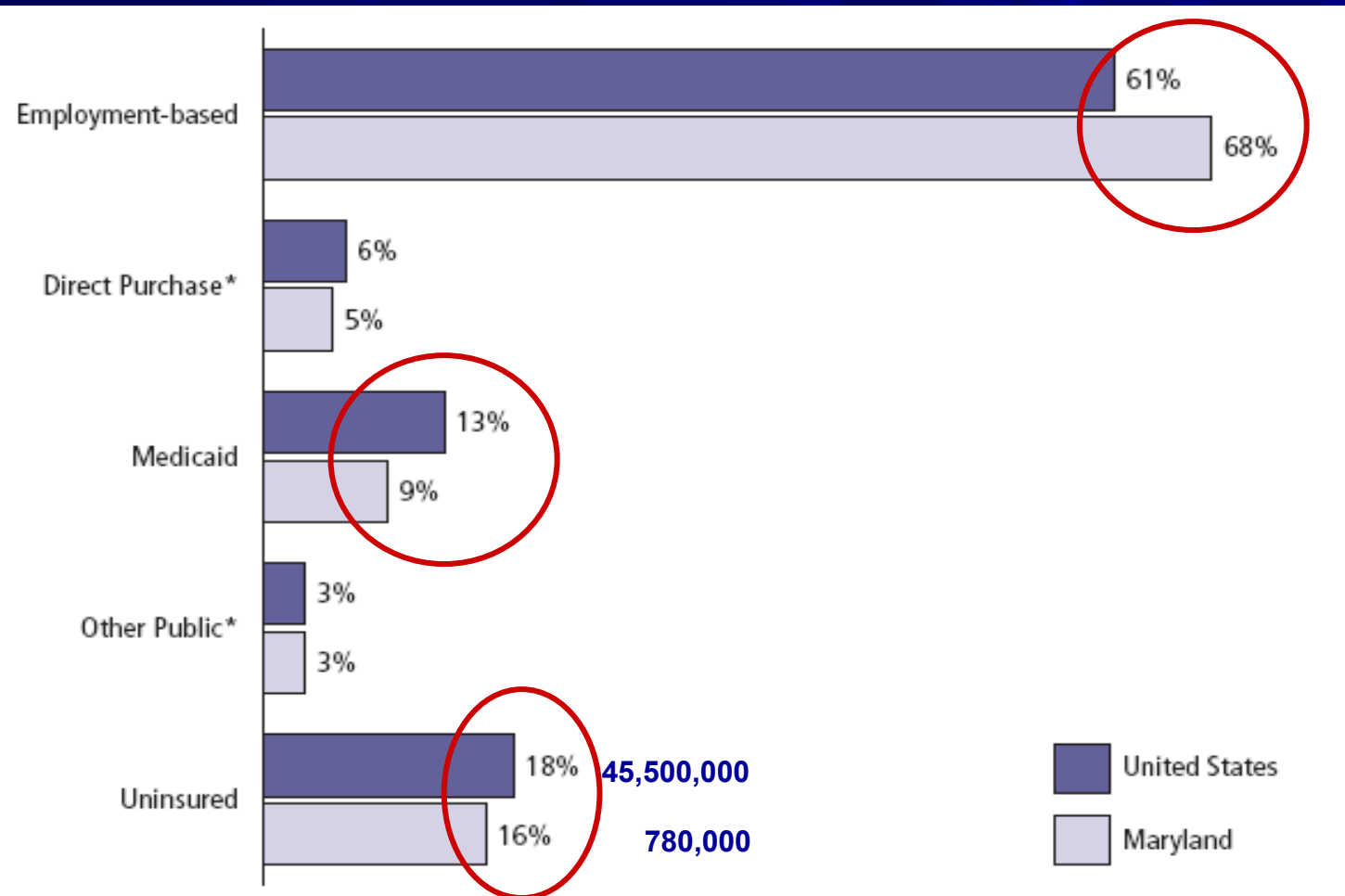
– Indirect costs - estimated at \$1.4-\$2.9 billion

■ poorer health, less productivity

* Source: “Maryland HRSA State Planning Grant: The Costs of Not Having Health Insurance in the State of Maryland” – 2002 estimates projected to 2007

Comparison of Maryland with the entire United States

Health Care Coverage of the Non-elderly 2004-2005

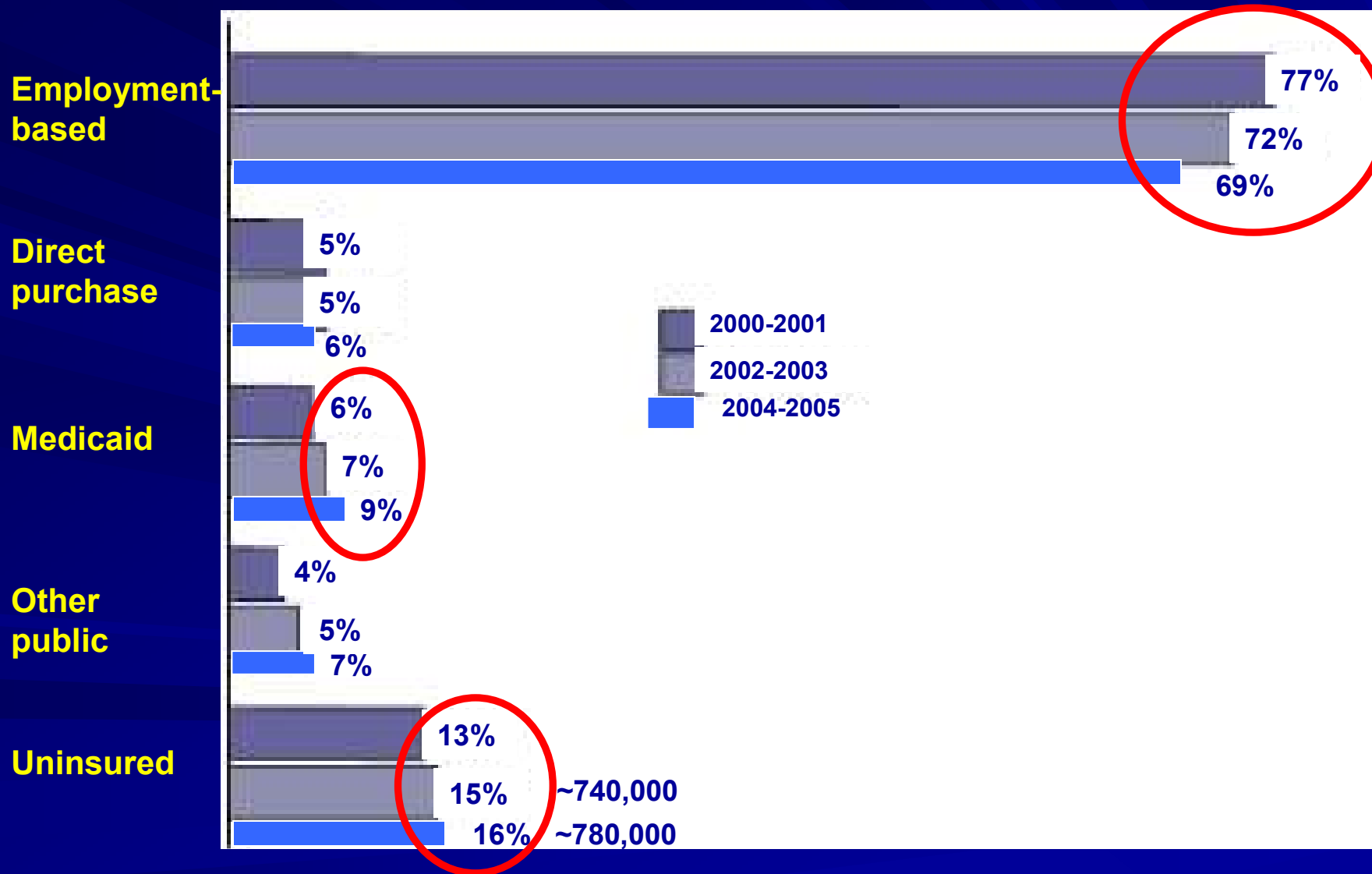


*Direct-purchase includes private insurance; source unknown.

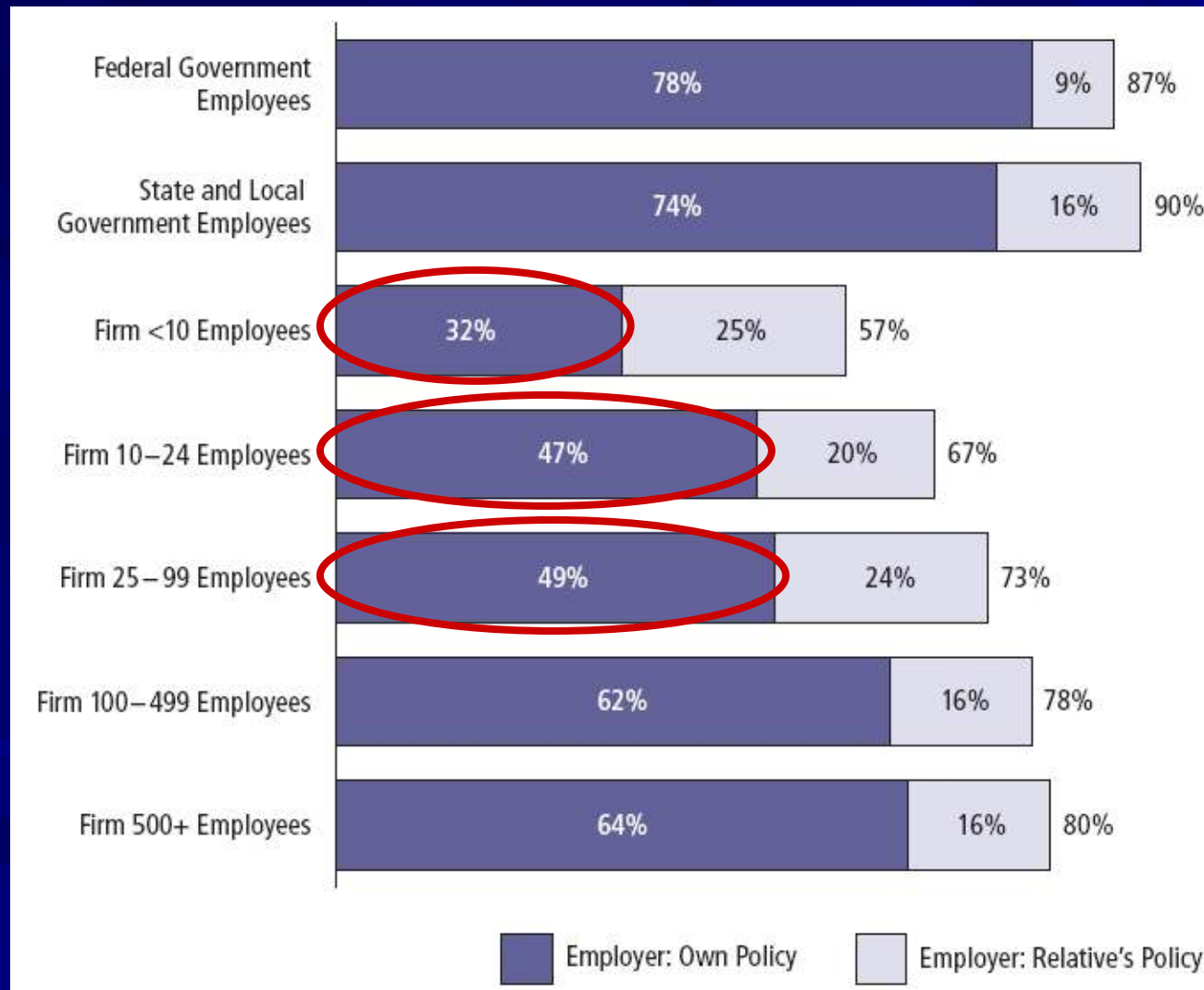
*Other Public includes Medicare and military-related coverage.

Trends in Maryland Health Insurance Coverage

Marylanders under age 65, 2001-2005



Employer-sponsored insurance: Coverage rates are substantially lower in small firms

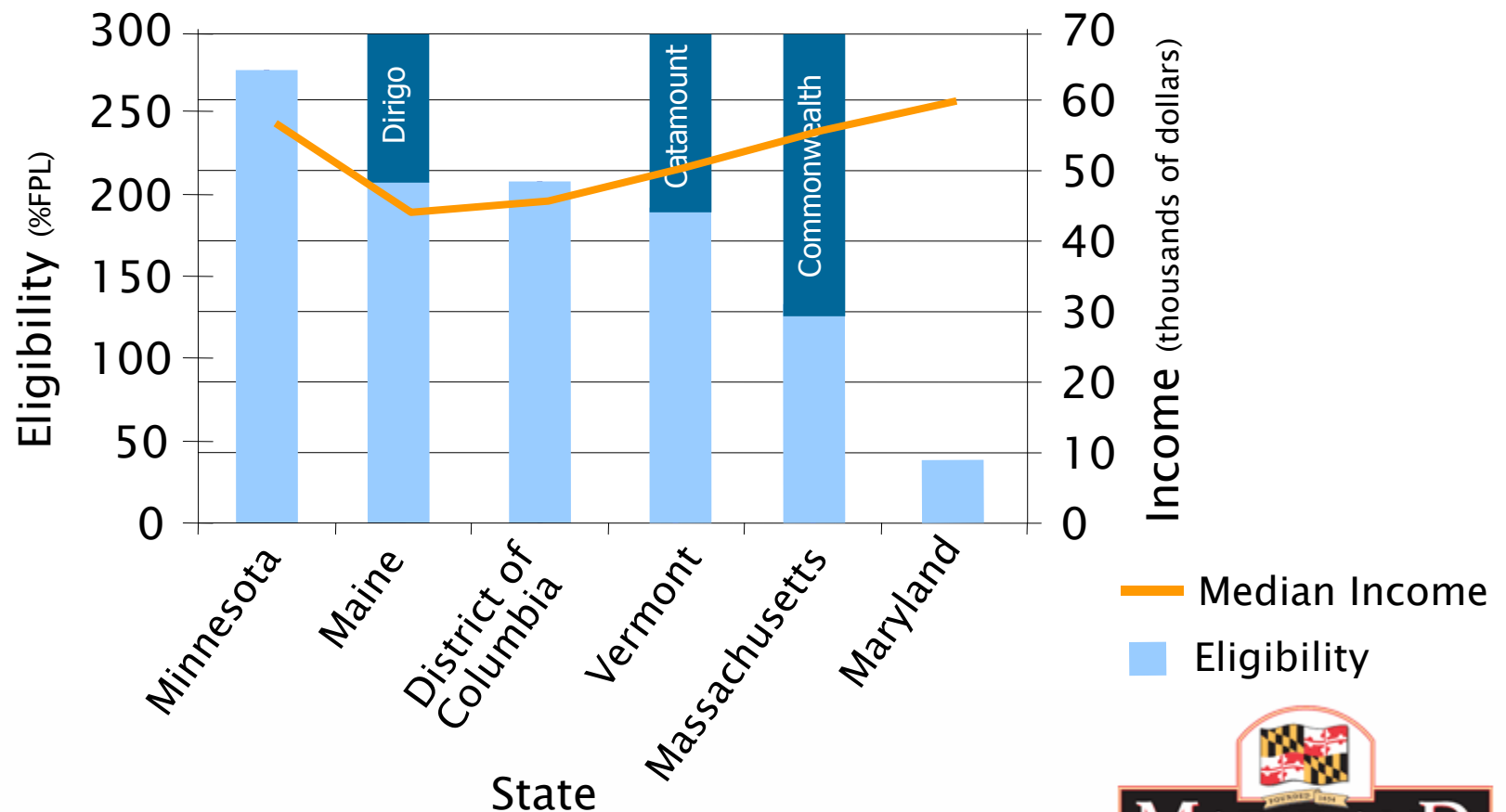


Firms of <25 employees have 42% of the uninsured workers in Maryland - but only 25% of all workers)

Firms of <100 employees have 57% of the uninsured workers in Maryland – but only 37% of all workers

Maryland significantly trails leading states in Medicaid eligibility for parents

Median Income and Adult Medicaid Eligibility, 2004–2005



Senate Bill 6
Working Families and Small Business Health
Coverage Act

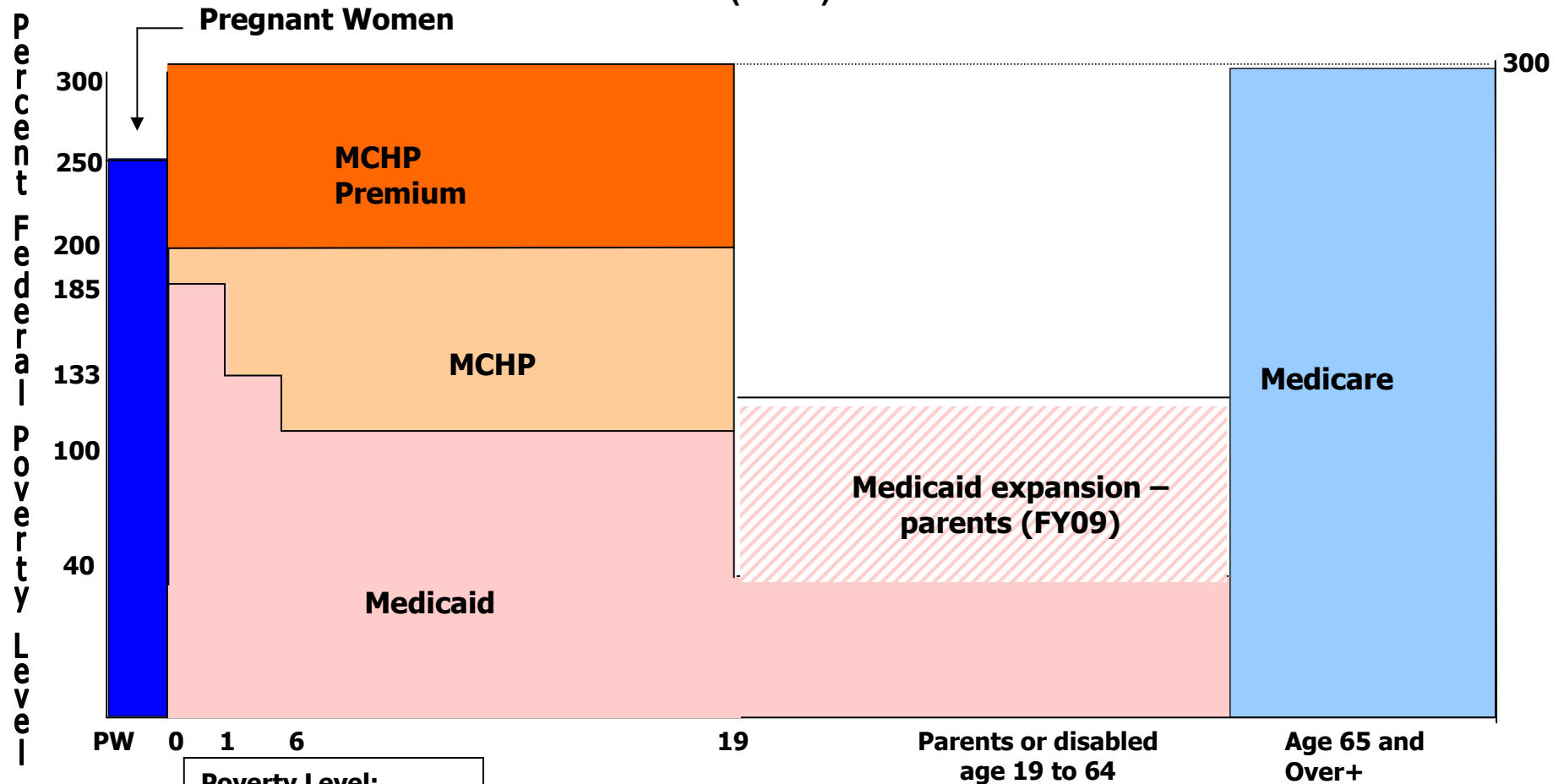
Senate Bill 6

Working Families and Small Business Health Coverage Act

- Passed in the 2007 Special Session
- Expanded Medicaid to parents of Medicaid eligible children up to 116% of the Federal Poverty Level
 - Approximately \$23,000 for a family of four
- Phases in Medicaid coverage for childless adults to 116% FPL
- Established the Small Business Health Benefit Plan Premium Subsidy
 - An effort to increase the very low rates of employer-sponsored insurance in businesses with:
 - Fewer than 10 full time employees
 - Low wage business sectors

Eligibility for Public Coverage

(2007)



Poverty Level:
 1 person = \$10,210
 2 persons = \$13,690
 4 persons = \$20,650

As of 1/24/2007

Note: This chart is for illustrative purposes only. Each coverage group has specific eligibility and some asset requirements, which are not shown.

Small Employer Health Insurance Premium Subsidy Program

The purposes of the program are to:

- provide an incentive for small employers to offer and maintain health insurance for their employees;
- help employees of small employers afford health insurance premium contributions;
- promote access to health care services, particularly preventive health care services that might reduce the need for emergency room care and other acute care services; and
- reduce uncompensated care in hospitals and other health care settings.

Team Subsidy

The Concept Team

- The Governor
- The Governor's staff (Carolyn Quattrochi, John Ratliff)
- Chairman Pete Hammen
- Chairman Mac Middleton
- Secretary John Colmers, DHMH
- Alice Burton, Chief of Staff, DHMH
- Commissioner Ralph Tyler, MIA
- Rex Cowdry, MHCC

Maryland Health Care Commission

- Bruce Kozlowski, Director, Center for Health Care Financing and Policy
- Ben Steffen, Director, Center for Information Services and Analysis
- Janet Ennis, Chief, Small Group Market
- Nicole Stallings, Director, Government Relations
- Mel Franklin, AG's office
- Plus: Administration, AG, Contracting, Regulations

State Government

- DHMH (design, implementation, financial management of SF)
- MIA (wellness, regulations)
- HSCRC (regulations)
- Comptroller (subsidy payments, auditing family income)
- DLLR (quarterly wage reports as audit check, information dissemination)
- DBM (financial management and budget)
- DBED (information dissemination)

Team Subsidy Extended

The General Assembly

- Members of the Health and Government Operations Committee
- Members of the Senate Finance Committee

Consultants - Academy Health / RWJ

- Jonathan Gruber, MIT – health economics consultation
- Mercer – John Welch – Section 125 plans and design advice

Carriers

Third-Party Administrators

Brokers/agents

Small business associations (NFIB, Chamber, Retailers and Restaurant Assn)

Small business owners

Fundamentals:

- The program should have stability and continuity
 - Eligibility should not disappear or phase out unless firm grows and prospers
 - There should be no “cliffs” – abrupt changes in subsidy as firm grows or prospers
- The program should be simple and easily explained
 - Wages rather than income
 - Average wage rather than median
 - Subsidy applies equally to all employees – no separate employee income test except for family coverage
- The program must be affordable and “efficient” in an economic sense
 - Requires targeting a subset of small businesses
 - Requires targeting the program to employers not currently offering insurance – a tradeoff between efficiency and fairness
- The program should be designed to:
 - Simplify administration and keep administrative costs low
 - Maintain established business relationships, processes, and incentives
 - Assure that subsidies are seamlessly integrated into routine billing and payroll deductions
 - Assure effective auditing of the subsidy
 - Minimize bureaucracy while preventing fraud and abuse

Implications for Program Administration

Administer the subsidies through premium reductions, not through checks to employers and employees

- Basic agreement is with the carriers, who are free to designate fiscal agents to handle administration and billing
- The subsidy is paid to the carrier
- Total subsidy is passed through to the employer as a reduced group premium
- The subsidy is shared between employer and employee in proportion to the amount each has contributed toward the premium
- Employers in turn must agree to pass through the employee's share of the subsidy in the form of lower payroll deductions for health insurance

How will the subsidy be delivered?

Current design subject to change

- The subsidy is paid to the carriers on behalf of enrolled employers and employees
 - Each month, the carrier bills the employer and the state
 - Each month, employers pay the carrier the premium minus the amount of the subsidy
 - Subsidy payment will be made at the time the premium payment is due from the employer
 - Reconciliation will be ongoing, adjusting future payments to the carrier for any subsidy payments for which a corresponding employer payment was not received
- Carriers will identify their fiscal agent(s) for the subsidy program. The fiscal agent will:
 - bill employers,
 - receive payments from employers and the state subsidy program on behalf of the carrier, and
 - provide reports to MHCC detailing payments received from employers and individuals covered under the policies
- Fiscal agent may be in-house or TPA

Small Business Health Benefit Plan Premium Subsidy:

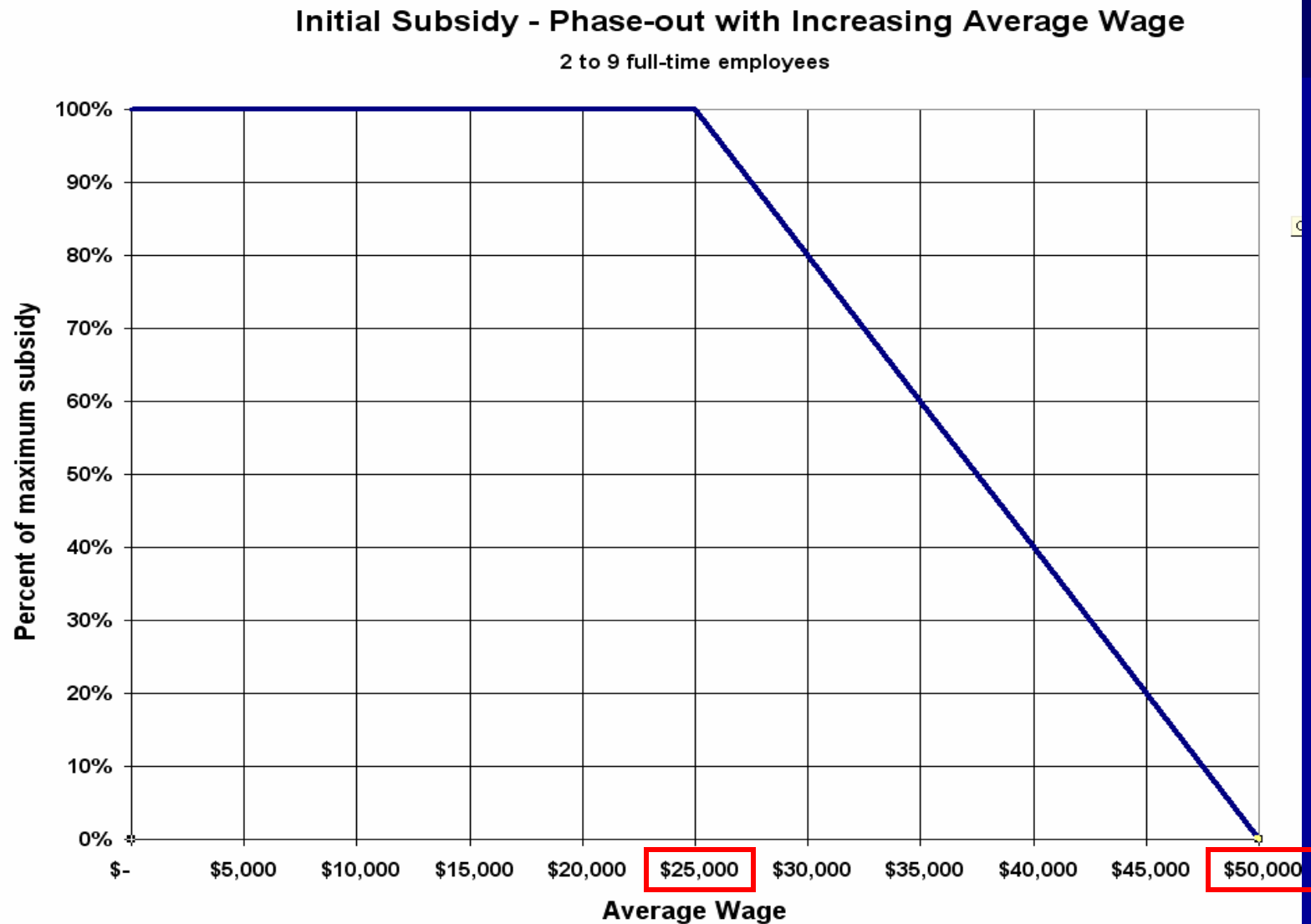
Eligibility

At the time of initial application, the business meets the following requirements:

- The business has at least 2 and no more than 9 full time employees
 - 30 or more hrs/wk
- The business has not offered insurance to its employees in the most recent 12 months
 - Corollary: Must have been actively engaged in business for 12 months
- The coverage purchased must have a wellness benefit
- The average wage of the eligible employees is less than an amount determined by the Commission

How Will the Subsidy Be Calculated?

Design based on models developed by Gruber
Consultation supported by AcademyHealth / RWJ grant



Amount of premium subsidy (proposed - subject to final regulations)

- SB6: Either 50% of the premium or an amount set by the Commission, whichever is lower
- Proposed “limiting amounts” for FY2009
 - Based on recent HMO premiums “as purchased” in SGM

Average wage	Employee only	Employee + child	Employee + spouse	Family
<\$25,000	\$2000	\$3000	\$4000	\$5000
\$30,000	\$1600	\$2400	\$3200	\$4000
\$35,000	\$1200	\$1800	\$2400	\$3000
\$40,000	\$800	\$1200	\$1600	\$2000
\$45,000	\$400	\$600	\$800	\$1000
\$50,000	\$0	\$0	\$0	\$0

How Will the Average Wage Be Calculated?

- Information provided by employer
 - Hourly x avg. hours/wk x 52
 - Add weekly tip income x 52
 - Annual salary
- The owner/partner dilemma
 - The goals are to assist the small business and to get employees insured
 - The owner's income should not immediately disqualify a low-wage firm
- Options:
 - Use the median wage
 - Use the average wage and
 - Discount the owner's / partner's income entirely
 - Use a "trim" amount for the owner's income - \$60,000

Examples of Average Wage Calculations

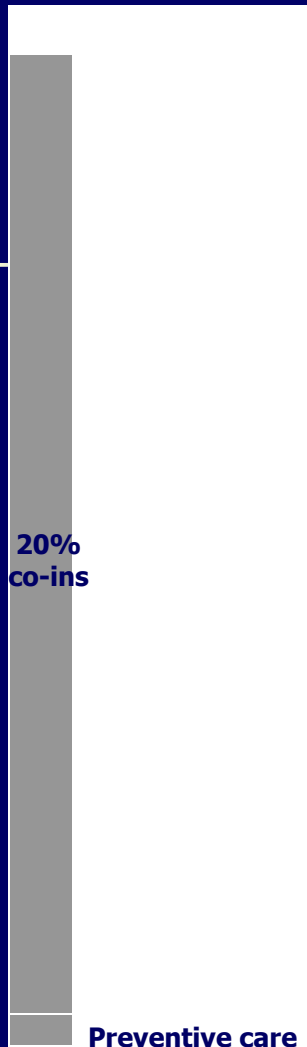
	\$120,000	\$60,000	\$60,000	\$35,000
	\$32,000	\$32,000	\$60,000	\$32,000
	\$26,000	\$26,000	\$60,000	\$26,000
	\$18,000	\$18,000	\$20,000	\$18,000
	\$17,000	\$17,000		\$17,000
Average	\$43,200	\$31,200	\$50,000	\$25,600
Subsidy – empl. only	\$540	\$1,560	\$0	\$1,960

The Special Case of Health Savings Accounts

■ = Patient OOP

\$35,400
max OOP
reached

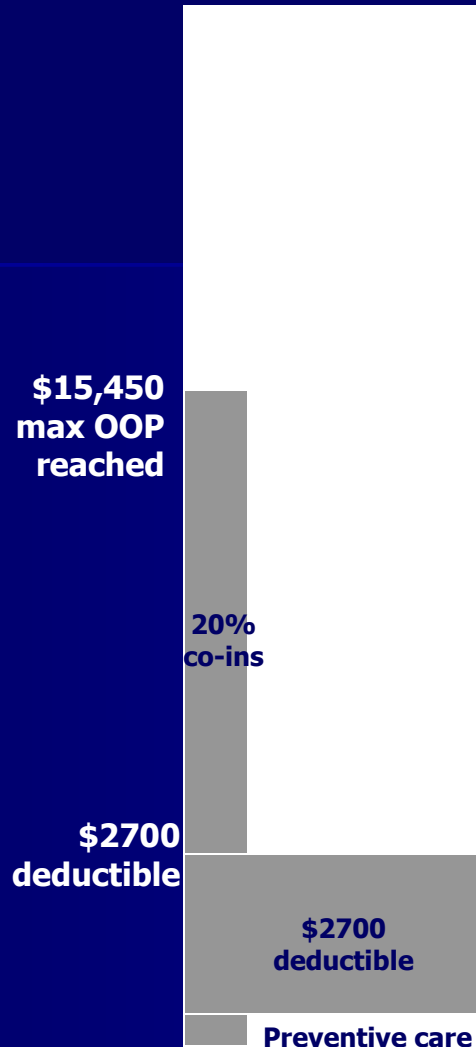
Increasing health expenditures =>



Standard HMO

\$3900 premium
\$1950 subsidy

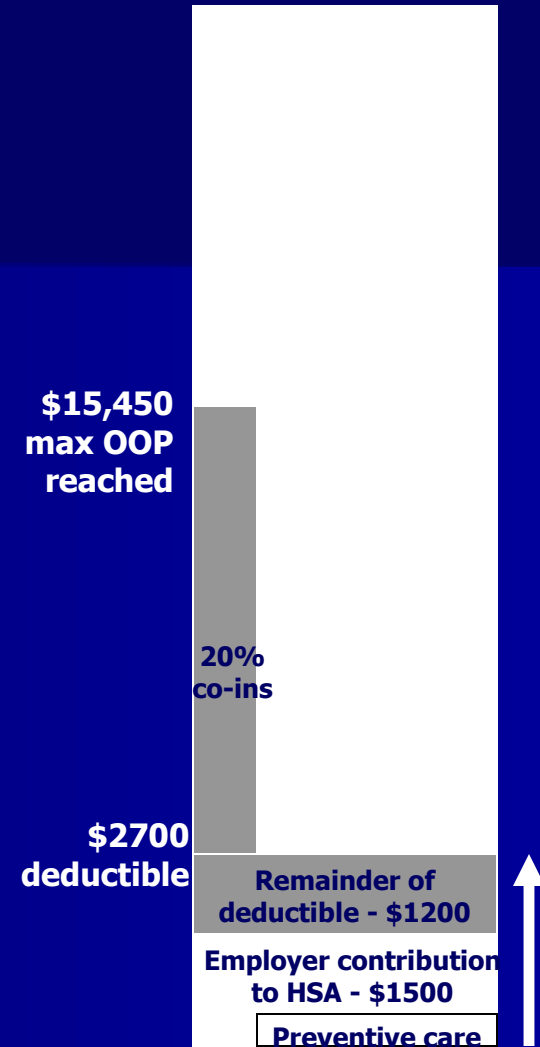
\$15,450
max OOP
reached



**High-deductible
HMO with HSA**

\$2400 premium
\$1200 subsidy

\$15,450
max OOP
reached



**HD HMO/HSA - employer
contributes premium savings to HSA**

\$2400 premium + \$1500 HSA
\$1950 subsidy

The Special Case of Family Coverage

- We expect the great majority of coverage to be employee only
 - Spousal coverage is relatively expensive, probably due to risk selection
 - Employers subsidize family coverage less generously, if at all
- Nonetheless, subsidizing dependent coverage would be as efficient as the employee subsidy, and we wanted to encourage coverage of the entire family.
 - Note that some of the children are MCHIP eligible
- If eligibility were solely wage-based, a low-wage spouse could get subsidized coverage for a high income family
 - Therefore, employees will have to attest to having a family income below \$100,000 to be eligible for a subsidy for the dependent coverage

Employer role

- Select an agent/broker, who will handle the subsidy application
- Provide information about the business and its employees
 - Quarterly wage reports and current wages/salaries
 - Any previous health insurance offered by the business
- Select a health plan with a wellness benefit
 - We anticipate that both HMO and PPO plans will be available, and that some will be high-deductible plans with HSAs
- Select a percentage of the premium as the employer contribution
 - Employer contributions toward dependent coverage are allowed and are subsidized, but are not required
 - If an HSA plan is chosen, decide whether to contribute premium savings to the HSA (employer contributions to the HSA are eligible for the subsidy)
 - Contribution should be high enough to achieve the 75% participation rate required by insurers
- The employer receives the entire subsidy in the form of reduced premiums
 - the State pays the subsidy to the insurance company
 - the employee's share of the subsidy is passed through in the form of reduced payroll deductions
- The employer pledges to establish a premium-only Section 125 plan

Maryland Small Employer Health Benefit Plan Premium Subsidy Program Application

Enter Maryland Employer Number: 432

Enter Federal Employer Number: 52-6718893

Company Name: Frango

Address: 333 3rd St.

Address2:

City: Walbesas

State: MD

ZIP: 764730000

Contact Person for the business:

First Name: Jane

Last Name: Hadley

Phone: 2022563333

Email Address:

Fax Number:

Please enter the type of business:

Sole proprietor / unincorporated (b)

Median wage
(enter value -
automatic
calculation needed)

\$18,417

Carrier: CareFirst of Maryland

TPA - if any: No TPA

Agent/Broker: Enter agent/broker

Health Plan Choice:

☐ Check if plan is HSA-compatible

Start Date: July 15 2008

	Annual premium	% contribution by employer
Employee only	\$3,800	70 %
Employee + child	\$6,410	% of additional cost contributed by employer
Employee + spouse	\$8,950	
Family:	\$10,420	20 %
Employer's Annual Contribution to HSA	\$0	Also eligible for subsidy

Eligibility for the Small Employer Health Benefit Premium Subsidy Program:

- ☒ This business has at least 2 but no more than 9 full-time employees (at least 30 hours per week)
- ☒ This business is located in Maryland and has been in operation for at least 12 months.
- ☒ No owner of this business has more than a 40% ownership share in another Maryland business with more than three employees.
- ☒ This business has not made any contribution toward health insurance for the owner or any employee for at least 12 months.
- ☒ The health plan includes a wellness benefit - a Health Risk Assessment with feedback and some form of incentive for prevention or health promotion

Enter all current employees. Include all employees listed on the last Quarterly Wage Report. If no longer employed, enter zero salary and choose "no longer employed" under eligibility. Owners who work in the business should be listed and should enter their annual wage as either \$75,000 or the sum of any wages they were paid plus Schedule C net income, whichever is lower.

Last Name	First Name	SSN	DOB	Empl_Status	Wage (Annual, monthly, weekly, hourly)	Wage Period	Hours Per Week	Annualized wage (calculated)	Earnings - most recent quarterly wage report	Eligibility	Any Insurance in past 3 mos?	Coverage chosen by employee	Premium	Total Subsidy	Subsidy passed to employee	Net cost to employee
Brown	Franklin	234-56-7890	2/12/1982	Full-time (	\$7.50	Hourly	35	\$13,650	\$5,350.00	Yes	Not insured in	Employee + spo	\$8,950	\$4,000	\$2,351	\$2,909
Jackson	Ralph	737-98-1983	1/1/1974	Part-time (	\$9.25	Hourly	35	\$16,835	\$4,400.00	Yes	Not insured in	Employee only	\$3,800	\$1,900	\$570	\$570
Hadley	Jane	389-80-0218	4/4/1978	Owner	\$75,000.00	Annually	40	\$75,000	\$0.00	Yes	Yes, individual	Family	\$10,420	\$5,000	\$3,088	\$3,348
Parsons	Michael	787-98-3040	1/2/1988	Full-time (	\$7.25	Hourly	40	\$15,080	\$2,200.00	Yes	Not insured in	Declined	\$0	\$0	\$0	\$0
Monaghan	Sally	898-74-7477	9/9/1978	Full-time (	\$11.00	Hourly	35	\$20,020	\$5,002.00	Yes	Yes, spouse's	Employee only	\$3,800	\$1,900	\$570	\$570
Smythe	Bret	653-78-9003	4/5/1982	Full-time (	\$14.40	Hourly	40	\$29,952	\$7,455.00	Yes	Not insured in	Employee only	\$3,800	\$1,900	\$570	\$570
*								\$0								

	Premium	Subsidy	Prem after subsidy
TOTAL	\$30,770	\$14,700	\$16,070
Employer	\$15,654	\$7,551	\$8,103
Employee	\$15,116	\$7,149	\$7,967

Update subsidy calculation above

Records: 1 of 6

Save Information for later review

Apply for subsidy

Update totals above

For illustration only – subject to revision

Employer attestation (draft)

Maryland Small Employer Health Benefit Plan Premium Subsidy Program Initial Application

Employer Attestation (integrate into the application form)

- ☐ I have the authority to act on behalf of the business.
- ☐ I have reviewed the information on the application form. To the best of my knowledge and belief, the information is accurate.
- ☐ This business entity has been actively engaged in business in the state of Maryland for at least 12 months.
- ☐ Employees of any affiliated business have been included in this application, for purposes of determining eligibility for the subsidy.
Affiliated businesses are businesses eligible to file a single tax return.
- ☐ On a majority of days during the past 12 months, the business has had at least two and no more than nine eligible employees. An eligible employee is one who has an average work week of 30 or more hours. Owners/partners are counted as employees if they work 30 or more hours and will be insured through the small group policy.
- ☐ The average annual wage of employees is less than \$50,000.
In calculating the average annual wage, the annual wage of individuals working at the business who hold an ownership interest is the lesser of \$60,000 or the owner's adjusted gross income.
- ☐ I will pass through to my employees their share of the premium subsidy from the state of Maryland in the form of lower payroll deductions for the employee's share of the health insurance premiums.
- ☐ Within 30 days, I will establish a premium only Section 125 plan ("POP") or a more comprehensive Section 125 cafeteria plan.
- ☐ I understand that the Maryland Health Care Commission may employ an auditor to examine participating employers' records to assure the accuracy of statements made in their applications, and will cooperate fully with any such audit.

The Wellness Benefit

Part of the carrier's benefit design, not a stand-alone employer-sponsored wellness program

- Health Risk Assessment (HRA)
- Education based on the HRA responses
- Financial incentive for prevention, health promotion, disease management
 - Direct financial reward
 - Reduced cost sharing

Section 125 Premium Only Plan

- Allows employee premium payments to be excluded from both income tax and FICA tax
 - Substantial benefit to employees who pay taxes
 - Modest benefit to employers (no FICA tax on employee premium payments)
- Simple to establish, no annual reporting
 - Cost will be between \$0 and \$200 – easily recaptured through FICA savings
 - Establish plan and notify employees
 - No filing of documents or reports required
 - Keep plan document on file
 - Review the plan if the Federal law changes
 - Make adjustments to payroll
- Contract with Mercer
 - Materials, PowerPoint, community meetings
- Carriers and TPAs may provide as additional benefit

Expected questions:

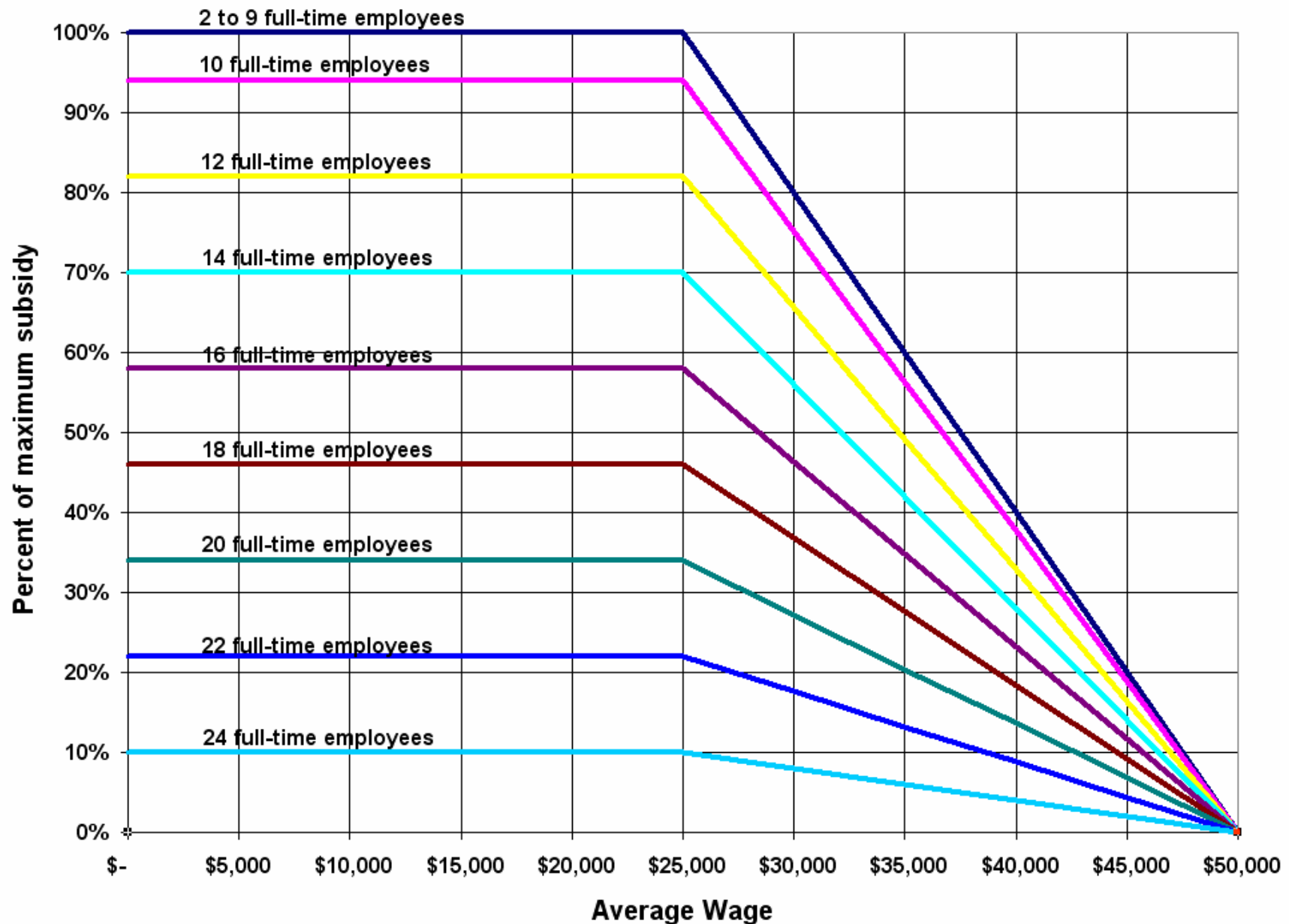
- Is this subsidy time-limited?
 - No – the Governor and the General Assembly intended this to be an ongoing program
- What happens when the program reaches its maximum size (currently proposed to be \$30 million in subsidy each year)?
 - The subsidy for each participating business will be capped at its then-current total subsidy amount
- What happens if my average wage increases?
 - The income limits in the subsidy table will be adjusted annually for inflation
 - Subsidies will be adjusted annually at policy renewal to reflect the firm's average wage, but the gradual phase-out from \$25,000 to \$50,000 assures that the subsidy also phases out gradually as wages increase
- What is a “wellness benefit”?
 - A Health Risk Assessment with written recommendations to reduce risk, and
 - An incentive for preventive care, healthy behavior, or disease management

Expected questions:

- What happens if my firm grows?
 - Individual firms qualify as program participants based on their size at the time of application
 - As long as the program as a whole is not capped, new employees are eligible for the subsidy.
 - During the current policy year, the business pays the same per employee premium and receives the same per employee subsidy that apply to other employees.
 - At the time of policy renewal:
 - The firm's age distribution will be used to determine a premium for the next year.
 - The firm's average wage will be recalculated and used to determine the maximum subsidy for the next year
 - If the firm has ten or more employees, a further adjustment will be made based on the number of employees, so that the subsidy phases out between 10 and 25 employees.

Adjustments for average wage and size are made only at time of policy renewal

Adjustments for average wage and size are made only at time of policy renewal



Marketing & Outreach

■ **Activities to Date**

- WYPR Interview – Sheila Kast (February 6, 2008)
- NFIB Focus Group (February 11, 2008)
- Submitted proposed wellness regulations to AELR (February 21, 2008)
- Presentation to the Baltimore Health Underwriters Association (March 5, 2008)
- Ongoing meetings with carriers, brokers and TPAs
- Consultation with similar programs in other states
 - *CoverTN*
 - *Insure Montana*

■ **Upcoming Activities**

- Small Employer Subsidy Program Page on MHCC web site
- Presentation at the CareFirst BCBS Broker Council (March 28, 2008)
- Presentation at the Annual MAHU/NAIFA Expo (May 15, 2008)
- NFIB town meetings (in partnership with Chamber of Commerce, Maryland Retailers Association and Restaurant Association of Maryland)